



## STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	<b>01/12/04</b>	Bill No:	<b>SB 1126</b>
Tax:	<b>Sales and Use</b>	Author:	<b>McClintock</b>
Board Position:		Related Bills:	

### BILL SUMMARY

This bill would provide a sales and use tax exemption for the sale and purchase of fire equipment purchased by a local fire department.

### ANALYSIS

#### Current Law

Under current law, the sales and use tax is imposed on the sale or use of tangible personal property in this state, including fire equipment. Also, sales or use tax is imposed on purchases by state and local governments.

#### Proposed Law

This bill would add Section 6383 to the Revenue and Taxation Code to create a sales and use tax exemption for the sale of, or storage, use or other consumption of fire equipment purchased by a local fire department.

This bill defines the term “fire equipment” to include authorized emergency vehicles as defined in Section 165 of the Vehicle Code and equipment and supplies used by a local fire department in response to emergency conditions and for the protection of the public’s health, safety, and welfare.

This bill defines the term “local fire department” to mean any of the following:

- A fire department under the jurisdiction of the state, a city, county, or city and county, a township, special district, or other local government agency.
- A fire company in an unincorporated town organized pursuant to Section 14825 of the Health and Safety Code.
- A fire protection district formed pursuant to the Fire Protection District Law of 1987, Part 3 (commencing with Section 13800) of Division 12 of the Health and Safety Code.
- A volunteer fire department as described in subdivision (a) of Section 213.7.

The provisions of the bill would become operative on the first day of the calendar quarter commencing more than 90 days after the bill is enacted.

#### Background

Assembly Bill 2758 (Statham), introduced in the 1994 Legislative Session, contained provisions that would have provided a sales and use tax exemption for the sale and

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purchase of any authorized emergency vehicle purchased by city, county, city and county, or fire protection district. AB 2758 failed passage in the Assembly Revenue and Taxation Committee.

AB 1884 (Lowenthal), introduced in the 2000 Legislative Session, contained provisions that would have provided a 5 percent state sales and use tax exemption for the sale and purchase of any public safety vehicle purchased by a city, county, city and county, or district responsible for public safety. AB 1884 failed passage in the Assembly Appropriations Committee.

SB 1826 (Morrow), introduced during the 2002 Legislative Session, contained provisions that would have provided a sales and use tax exemption for sales of emergency equipment to local emergency service providers. SB 1826 failed passage in the Senate Revenue and Taxation Committee.

## COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the author in an effort to reduce the operating costs related to fire equipment acquisition. The author's office noted that a volunteer fire department was unable to acquire a new fire truck due to the addition of the sales tax due on the purchase.
2. **Suggested technical amendment.** This bill provides that the definition of a local fire department would include a volunteer fire department as described in subdivision (a) of Section 213.7. Subdivision (a) of Section 213.7 defines property subject to the welfare exemption provided in Section 214. Subdivision (b) of Section 213.7 defines a volunteer fire department for the purpose of granting the welfare exemption provided by Section 214. It is recommended that the definition be amended to reference subdivision (b) rather than subdivision (a) of Section 213.7.
3. **Items covered by the proposed exemption.** The proposed exemption would apply to the sale of authorized emergency vehicles as defined in Section 165 of the Vehicle Code and equipment and supplies used by a local fire department in response to emergency conditions and for the protection of the public's health, safety, and welfare. Section 165 of the Vehicle Code covers virtually all emergency vehicles operated by an emergency service provider. The proposed exemption would also apply to sales of fire hoses, tools used by emergency workers, medical supplies consumed in providing emergency services, radio equipment, sirens, light bars, and other specialized equipment used to convert regular vehicles to be used as emergency vehicles. Vehicles consist of many moving parts and are in need of regular maintenance and repairs. It appears the proposed exemption would also apply to the sale of repair or replacement parts that are an integral or component part of a public safety vehicle, such as tires, brakes, spark plugs, and other maintenance items.
4. **DMV may also be affected by this bill.** The sale of emergency vehicles, such as fire trucks and ambulances, could qualify for the proposed exemption. Sales and purchases of vehicles are generally subject to either the sales tax or the use tax. Generally, the sales tax applies when the vehicle is purchased from a dealer located

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in this state. The use tax generally applies whenever the sales tax does not apply, such as when a used vehicle is purchased from a private party.

When the sales tax applies, it is collected by the dealer and remitted to the Board of Equalization. When the use tax applies, the purchaser pays the tax to the Department of Motor Vehicles (DMV) when they register the vehicle. The DMV acts as an agent for the Board of Equalization in these situations.

The exemption proposed by this bill could require dealers selling vehicles subject to the exemption to maintain documentation to support the exemption and also require separate accounting and reporting for sales subject to the exemption. Additionally, the DMV would also be affected in situations where the use tax would normally be paid directly to the DMV, but due to the proposed exemption, DMV would be required to verify the exemption at the time of vehicle registration.

## **COST ESTIMATE**

Some costs would be incurred in revising returns, regulations and publications. A detailed estimate of the workload impact is pending.

## **REVENUE ESTIMATE**

This bill exempt from the sales and use tax the gross receipts from sales or purchases of fire equipment purchased by a state and local fire department.

### **Background, Methodology, and Assumptions**

Under current law, the purchase of tangible personal property by local fire departments is taxable. This bill would exempt from the sales and use tax tangible personal property including public safety vehicles, safety equipment and supplies used by a local fire department.

According to the State Controller's 2000-01 Annual Report for Cities and Counties, and the 1999-01 Annual Report for Special Districts, statewide city and county fire department expenditures amounted to \$4.0 billion. Using a 2% annual growth rate, total fire and police expenditures for 2003-04 are estimated to be \$4.3 billion.

Based upon an analysis of local fire department expenditures in the cities of Long Beach, Sacramento, San Jose, and the City and County of San Francisco, 2003-04 expenditures for local fire departments on vehicles, equipment and supplies by cities, counties, or a city and county are estimated to be 4.5 percent of total expenditures, or \$193.5 million (\$4.3 billion x 0.045).

Additionally, according to the California Department of Forestry, annual expenditures on vehicles, equipment, and supplies is estimated to be \$15.0 million.

### Revenue Summary

The revenue impact from exempting \$208.5 million (\$193.5 million + \$15.0 million) in expenditures for local fire department vehicles, equipment and supplies from the sales and use tax is as follows:

	Revenue Effect
State loss (5.25%)	\$ 10.9 million
Local loss (2.00%)	\$ 4.2 million
Special District loss (0.67%)	\$ 1.4 million
Total loss	<u>\$16.5 million</u>

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